

The Last Word: What Are the Prospects for a Return to “Normalcy” in the Municipal Credit Markets?

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The Markets Will Recover

- There will only be one “end of the world” –
... this probably wasn't it!
- When we recover, will we recognize:
 - The protocols?
 - The instruments?

“The best way to predict the future is to create it.”

– Peter Drucker

First, the Protocols

- Credit matters again!
 - Remember the “Five Cs” of credit:
 - Character – self-explanatory
 - Capacity – arguably the most critical
 - Capital – meaning the relationship of the borrower’s level of investment to that of the lender’s
 - Collateral value – what the borrower “stands to lose”
 - Conditions – covenants, repayment terms, etc.
- Disclosure matters still!

“It’s *déjà vu* all over again.”
– Yogi Berra

Why Credit Will Matter “More” This Time

- The operating and financial apparatus of government is more complicated
- There is a greater “fragmentation” of the public’s responsibility for community assets and obligations
- The financial products we’re using are likely to become more standardized and less “customizable” than we ever imagined
- Other “credit stressors” still lie ahead
 - Keeping the promises made to our aging workforce
 - Catching up on the deferred maintenance of our aging infrastructure

Disclosure Matters Still!

- The aftermath of the “meltdown” is still being scripted
 - In Washington
 - On Main Street
- Last time (1970s), the belief was that better disclosure was the balm for the troubled soul of the markets after NYC, UDC, etc.
 - Result: disclosure where often “more” may have been confused with “better”
- So, what do “they” (the investors) really want, and why we should all care

What the Market Really Wants

- Good systems, controls and procedures with adequate supervision
- Coherent, straightforward policies on what to expect in your financial reporting
- Evidence of appropriate training of your staff
 - “clerk to council” pathway
- Focused on the “big picture” – the goal isn’t the process, it is in answering:
 - What issues are you facing?
 - What issues are you avoiding?
 - What is both relevant and material?
- Using “good” professionals
 - Accountants, engineers, lawyers, etc.
 - Hired on talent, not on price
- Representations and warranties at closing are understood and agreed to
- Transparency – both of the issuer and the intermediaries

The Instruments

- In the near term, it will not be sufficient for a “financial product” to be technically superior
- It must also:
 - Demonstrably solve the financing problem AND
 - Not introduce new or undiscovered risks or problems
- The “Steckel rule”
- Replacement of the monoline insurers as surrogates
- The role of “prudence” in avoiding another “tulip mania”

Conclusions

- Gravitate to the simple, straightforward tools already in the box
- Avoid financial engineering “pyrotechnics”

“Every normal man must be tempted, at times, to spit on his hands, hoist the black flag, and begin slitting throats.”
~ H. L. Mencken

“Normal is in the eye of the beholder.”
~ Whoopi Goldberg